



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Citizens South Bank (Holding Company: Citizens South Banking Corporation)

Person to be contacted regarding this report:	Kim S. Price, President and CEO, Citizens South Bank
CPP Funds Received:	\$20,500,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	12/12/2008
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	397175
Holding Company Docket Number: (For Thrift Holding Companies)	H-3027
FDIC Certificate Number: (For Depository Institutions)	28833
City:	Gastonia
State:	North Carolina

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	The institution's plans have always been to make small business loans, full documentation conforming residential mortgage loans, multifamily mortgage loans, and, to a lesser extent, commercial real estate loans with pre-leased credit tenants, as well as to consider bank acquisitions.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Residential mortgage loans with subsidized interest rates for individual purchasers of potential REO properties and unsold speculative homes on which the bank held the first mortgage are the major types of loans supported by the CPP capital infusion. (See page 3 below).
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Reserves for non-performing assets were increased from \$7,297,517 at November 30, 2008, to \$10,633,607 at February 28, 2010 (net of charge offs).

<input checked="" type="checkbox"/>	Reduce borrowings	Borrowed money was decreased from \$149,511,072 at November 30, 2008, to \$104,826,174 at February 28, 2010.
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Without the infusion of capital from CPP funds, the Citizens South Bank CPP Mortgage Loan Program could not have been developed. The Citizens South Bank CPP Mortgage Loan Program was developed as a way to invest this capital in Citizens South Bank's local communities by using the CPP funds that were received on December 12, 2008, as a result of the U. S. Treasury's investment in \$20,500,000 in senior preferred stock of Citizens South Banking Corporation. Immediately, the parent holding company used \$15,000,000.00 in December 2008 as a Tier 1 capital contribution to the subsidiary bank, Citizens South Bank, from the parent holding company, Citizens South Banking Corporation. Next, the CPP Mortgage Loan Program was developed by Citizens South Bank's President and CEO, Kim S. Price, in early February 2009 as an innovative program to use the CPP funds for mortgage loans in its local markets and the first loan under the program was made on February 26, 2009. Through February 28, 2010, there have been 39 such loans made, for a total of \$11,125,175, or 54.3% of the entire infusion of CPP funds. Several of the loans have been loans to facilitate the sale of foreclosed residential real estate owned properties (REO). Several of the loans have avoided the potential delinquency and/or foreclosure or eliminated the need for foreclosure of some speculative construction properties, which have been sold to consumers using the CPP program funds. This record indicates an innovative, yet prudent, use of a significant portion of the CPP funds in a twelve-month period and has resulted in the promotion of home ownership and economic revitalization within the Bank's market areas. In addition, the CPP funds have improved the Bank's capital ratios by the investment of \$15,000,000 as equity capital directly into the subsidiary, Citizens South Bank. In the aggregate, during the period from December 1, 2008, through February 28, 2010, the bank has originated or renewed in excess of \$100 million in loans. In addition to the CPP capital infusion, in order to preserve capital, the cash dividend paid to common stockholders of Citizens South Banking Corporation has been reduced 53% from 8.5 cents to 4 cents per common share, effective May 1, 2009, and will not be increased. In addition, the company suspended the repurchase of common stock in 2008 and no common stock will be repurchased until the obligation for the CPP capital has been satisfied.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.